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SUBJECT: FRANCE: ENERGY SECTOR UPDATE

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(B) Paris 7373
(C) Paris 7334
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(G) Paris 3654

[1](#)1. (U) This is the fourth in a series of occasional updates on the French energy sector. Feedback is welcome to help us make this product as useful as possible for our inter-agency USG audience.

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[1](#)2. (SBU) Total executive notes decision-making void in Iran: On November 8, EconOff met with Total's new Senior Vice President for International Relations, Hubert Loiseleur des Longchamps (HLL), who had just transferred from heading Total's presence in Angola. (His predecessor is now in Beijing, charged with consolidating the company's diverse investments in China.) When asked about Azadegan, HLL said that the decision making process in Iran has grinded to a halt by the fact that there is no Minister. The people the new president has put forward lacked credentials for the job and the vacancy has added to diverse struggles among the centers of power in Iran. With the top seat vacant, no decisions are being taken at the Ministry as no one dares and no one feels they have the authority to do so. The result for Total and others in the oil and gas sector casts a shadow on an already dark picture of potential deals. After EconOff cited persistent rumors that Total may be taking a stake in Azadegan development, HLL opined that the context is not favorable for any finalizing or signature of deals. His comment implied a large sense of the term "context" given proliferation concerns and recent controversial anti-Israel statements by President Ahmadinejad.

[1](#)3. (U) Individuals flocking to buy EDF shares despite high price: Individual investors appear to be focusing more on EDF's reputation and quality, as well as the one-euro price cut that they will receive compared to institutional investors, and are unflinchingly coming forward to buy shares despite a higher than initially expected share price. (Refs B and C detail the long-awaited partial privatization and initial reactions.) To date, some 2.5 million individuals in France have been "won over" by EDF and have signed up to buy shares since the capital opening began two weeks ago. A number of bank branches have already placed half of the shares allocated to them. EDF estimates that the company will have as many as four million private shareholders. The deadline for placing the seven billion Euros' worth of EDF shares is November 15 for individual investors and two days later for institutions. EDF reportedly spent 18 million Euros on advertising to promote the flotation. Meanwhile, institutional investors appear wary of the high flotation price -- between 29.5 and 34.1 euros per share, depending on supply and demand -- which puts the value of the company in the neighborhood of 54 to 60 billion euros. This valuation is 20 times EDF's profits. Other listed groups in Europe tend to be valued at a factor of no more than 15. So, some analysts fear that EDF's share price growth could be limited. A rise in electricity rates, to bring EDF in line with Europe, could significantly boost its value, but (as a condition

to allow the partial privatization to move forward) electricity price increases in France are limited to the rate of inflation until 2007. Institutional investors, for whom around 50% of the floated stake has been reserved, may see themselves forced to invest in the company in any case if it joins the CAC 40 selective index, as fellow state-controlled group Gaz de France recently did. The GOF indefinitely postponed the only other major looming energy sector privatization, nuclear services company Areva (ref A).

14. (U) Total posts record quarterly profit: On November 4, Paris-based oil and gas company Total posted a 32% increase in third-quarter profit as soaring oil prices and strong refining margins more than offset the impact of refinery strikes (ref D) and hurricanes in the Gulf of Mexico. Adjusted net profit rose to 3.13 billion Euros for July through September from 2.76 billion Euros in the same period of 2004, with a 19% increase in revenue to 38.41 billion Euros. The company said the surge to its highest ever quarterly profit came despite a 2% decline in production to 2.43 million barrels of oil equivalent per day -- mainly due to contract terms that limit Total's oil field entitlements when prices rise. "At a time when global demand for petroleum products was already strong, major disruptions in the Gulf of Mexico drove oil prices and refining margins to very high levels," Total CEO Thierry Desmarest said. Downstream, however, "retail marketing and petrochemicals suffered as a result of rapidly rising raw material costs." Rising prices squeezed retail and marketing margins for refined products, Total said. Strikes that shut down several French refineries and an outage at Total's Port Arthur unit in Texas, caused by Hurricane Rita, also weighed on the downstream business, but only partially offset the sharply higher refining margins. Chief Financial Officer Robert Castaigne said Total has launched studies aimed at increasing the capacity of the Port Arthur unit to process heavy crude oil some time after 2010. The project would cost around US\$800 million, he said, according to news reports. The company's results statement gave no forecast for the full year or 2006, but said both oil prices and refining margins have remained high following the U.S. hurricanes.

15. (U) Total launches gas-to-liquids research program: On November 3, Total announced its launch of a research and development program aimed at converting natural gas to liquid forms, which are desirable for their relative ease to transport. In announcing the launch, company officials did not disclose specific investment plans, but did say that the company will set up a pilot unit as part of the research program, whose main goal is to develop a new technology to improve efficiency of the Fischer-Tropsch process, the core element of gas-to-liquids technology. Total also said it has formed cooperation agreements with several partners, including Velocys, a unit of U.S. technology group Battelle.

16. (U) Ford to sell two biofuel vehicles in France: U.S. auto company Ford announced on November 4 that it would sell hybrid ethanol/petrol versions of its Focus cars in France to fleet buyers by the end of 2005, and is preparing to make the whole range hybrid by the end of 2006, according to the head company representative in France. At a news conference, Ford France chairman Eric Saint-Frison said "We plan to apply this technology, which costs 350 Euros extra per car, to 300 Focus saloon cars and Focus C-Max minivans intended for local authority or corporate fleets." Referring to the goal of broadening the offering to the entire range of their vehicles available for sale in France, he added that "It is a genuine business strategy." BP will make the fuel available to fleet buyers and Ford expects that the initial output will be enough to justify making tens of thousands of liters of biofuel. Pure biofuel cannot be used in France, but must be blended with gasoline.

17. (SBU) French media (and farmers) increase attention to biomass and biofuels: Reflecting the increased political attention (ref D) devoted to biofuels and biomass energy, the mainstream French media is more frequently dedicating attention to the subject. On November 9, daily newspaper La Tribune devoted two pages to the possibilities of "biomasses" as an "energy treasure." The gist of the piece was that green energy, based on vegetable resources, will diminish oil costs and CO2 emissions and create jobs in the countryside. Currently biomasses make up 4.2% of France's energy needs. Meanwhile, Industry Minister Francois Loos recently met with representatives of farmers, biofuel producers, petrol producers, car manufacturers and car importers as part of a plan to increase the production of biofuels in France sevenfold between now and 2010. The aim is to increase the area under cultivation for biofuels production from 300,000 hectares in 2004 to some two million hectares. Among

other things, the recent meeting discussed the controversy created by a recently released GOF report which found that the estimate of the number of jobs that would be created (26,000) by the increased use of biofuels is a gross overestimate, and that rather than create jobs, it would merely protect existing jobs in rural areas. The report also estimated the cost of each job at 60,000 Euros, plus 93,000 Euros as a result of a tax on polluting activities. One of our Industry Ministry contacts expressed dismay that the GOF's decision to accelerate its plans to promote biofuels was based on more advantages that were political than on economic or scientific data.

18. (U) Public debate begins on new nuclear reactor: November 3 was the first day of the long-planned public debate on the EPR (European/evolutionary pressurized reactor) nuclear reactor proposed to be built in Normandy, following the cancellation of the first four meetings due to a boycott by anti-nuclear associations. Some associations have boycotted the debate on the nuclear reactor, because questions relating to the security of the reactor are considered by the French authorities as "national security" issues and therefore excluded from the debate. The first French EPR reactor is to be constructed in Flamanville and is expected to go into service in 2012. Meetings of this kind are to be held throughout France over the next three and a half months, with the purpose of providing information to the general public before French electricity group Electricite de France (EDF) makes a formal decision to construct the reactor. The company is already planning to submit the plans to its board of directors for approval in spring 2006.

Stapleton